Sionna Investment Managers

INSIGHT

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If it Ain't AI, it Ain't Working

Every once in a while, a new technology emerges and upends what society, businesses, politicians and investors believe to be true. No theme in the past decade has captured attention and capital like the proliferation of Artificial Intelligence (AI) across everyday life.

The sheer scale of investment into AI infrastructure and applications has been astounding. The U.S. hyperscalers (Amazon, Oracle, Microsoft, Google, Meta etc.) are on track to deploy over $750 billion this year and nearly $1 trillion in 2027 on capital expenditures.[1] On current forecasts, the large hyperscalers will spend more on AI infrastructure in a single year than the entire U.S. telecom sector did during the peak of the dot com fiber buildout, and roughly as much as telecom invested over the entire 1996-2001 cycle.[2]

History rhymes with the early 2000s

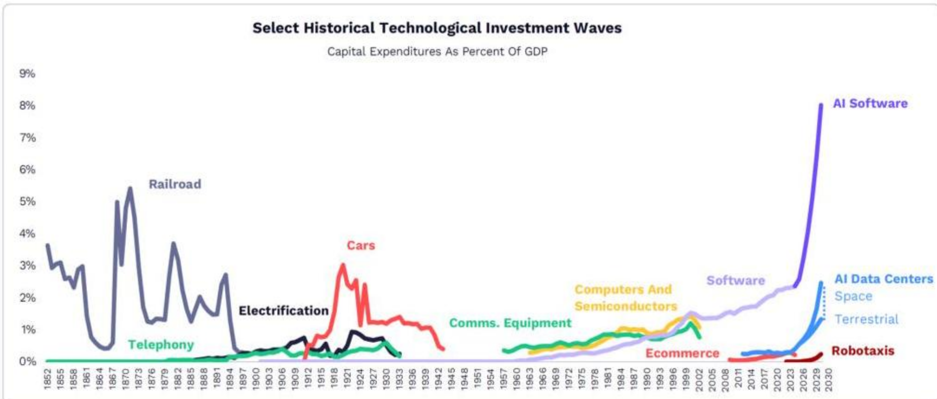
The AI infrastructure buildout increasingly resembles that of the telecommunications fiber overbuilds of the early 2000s, where fiber capacity was financed on expectations of ever-growing demand rather than proven economics. In that period, the forecasts for growing demand turned out to be correct, yet returns collapsed as excess supply drove down prices and largely commoditized the fiber infrastructure.

While AI differs in important respects, similar risks lurk within today's buildout. The demand forecasts and game-changing benefits of the technology may very well come to be; however, as in any cycle, when supply outpaces near-term demand, the path to future monetization may not be as attractive as current forecasting and decision-making models suggest.

Underpinning the demand for AI graphics processing units (GPUs) are the hyperscalers, which maintain robust cash flow profiles even after accounting for their substantial AI capital expenditure plans. The AI hardware ecosystem is led by NVIDIA, the world's largest GPU designer and the dominant supplier of AI accelerators. Demand for AI products is primarily enterprise-led, there isn't excess capacity (yet), and adoption rates of AI technologies are double that of the early growth phases of the internet and personal computers.

For equity investors, these risks are ever-present in the U.S. market, where the "Magnificent 7" have driven a high percentage of index returns in recent years. These seven companies constitute roughly one-third of the S&P 500's market capitalization, and the AI theme has become the primary driver of the Index's earnings and valuation.[3]

The World Is Entering An Unprecedented Technology Investment Cycle



Source: ITUS Capital. Technological Investment Waves. 2026.

What is Sionna doing amidst the AI craze?

Our disciplined investment philosophy is rooted in a refusal to overpay for assets, which often keeps us from participating in emerging technological investment waves such as the one currently playing out with AI. Sionna's U.S. and global portfolios currently have no exposure to the "Mag 7," nor do we currently own the primary Canadian beneficiaries of the AI investment cycle in our Canadian funds. While this positioning has weighed on our relative performance at times in the short term, history suggests that periods of speculative excess tend to correct to more sustainable valuations in due time.

Portfolio construction remains driven by a bottom-up approach, not by top-down themes or prevailing market narratives, so holdings may vary across our strategies depending on mandate constraints and opportunity sets. Rather than investing directly in AI or its infrastructure as presented under current business models, we seek exposure through businesses with proven cash flows, disciplined management teams and embedded customer relationships that may benefit from underappreciated AI tailwinds and/or are mispriced due to misunderstood AI threats.

Building our stake in CGI across many of our portfolios is a prime example of this approach. CGI is one of the world's largest IT services companies, helping clients manage technological transitions, protect their data and deploy proprietary software solutions. CGI's client base consists of governments and large corporate enterprises with complex IT environments that must work seamlessly together in the background of their operations. The mission-critical nature of this IT backbone has resulted in high levels of recurring revenue and long tenured contracts.

Our contrarian view is that the rise of AI will create incremental revenue opportunities and drive meaningful internal efficiencies for CGI and not be a threat to its current business model – evidence of which we have already started to see. This underappreciated setup, combined with a strong balance sheet, effective management at the helm and a depressed valuation, makes CGI an attractive opportunity in an unloved pocket of the market.

Constellation Software (CSU) is another company in which we recently initiated a position in our flagship Canadian Equity Fund. CSU has been a highly successful acquirer of niche, competitively advantaged software businesses for several decades.

Recent concerns that emerging AI applications could disrupt CSU's market position have contributed to a meaningful decline in its share price. At the same time, CSU has been able to deploy record levels of cash flow into acquisitions, as software valuations have compressed and the pool of buyers has waned.

This countercyclical and disciplined capital allocation approach, combined with impressive shareholder alignment and an attractive valuation, has given us the opportunity to initiate a position in a company that has historically been out of reach.

At the core of these investments is a commitment to our value investing philosophy. We look at corners of the market that tend to be unloved by the mass market, but which offer attractive revaluation opportunities. We remain focused on understanding the fundamentals of the business and whether there is any real impairment to long-term value. As value investors, it is in our nature to be comfortable missing the "next big thing," as the next big thing often disappoints along the path to ubiquity.

Stuart Tabor, CFA
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[1] *Goldman Sachs. Tracking Trillions: The Assumptions Shaping the Scale of the AI Build-Out. May 2026.*
[2] *Fabricated Knowledge. Lessons from History: The Rise and Fall of the Telecom Bubble. October 2023.*
[3] *FactSet.*

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